

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1399 - SB 1624

February 16, 2009

SUMMARY OF BILL: Requires the Commissioner of Finance and Administration, in consultation with the Commissioner of Revenue, on April 15 of each year, to certify the amount of state surplus revenue collected above budget estimates during the current fiscal year, and to notify the Governor, the State Treasurer, and the Speakers of the Senate and House of Representatives, for the purpose of enacting 0.5 percent rate reductions to the state sales tax rate on food and food ingredients for the next fiscal year when surplus revenue exceeds \$50,000,000. Requires the Commissioner of Revenue, by June 15 of each year, to publish the rate of taxation on food and food ingredients that will be effective on July 1.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact - The fiscal impact of this bill is dependent upon the fiscal years that state surplus revenue exceeds \$50,000,000. In fiscal years when state surplus revenue exceeds \$50,000,000, the net decrease to state revenue for the following fiscal year is estimated to exceed \$45,715,600; the decrease to local government revenue is estimated to exceed \$2,200,600. In addition to these recurring decreases, the state would forgo additional sales tax revenue in subsequent fiscal years due to the natural growth of taxable food sales.

Assumptions:

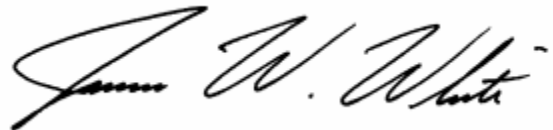
- According to the Department of Revenue, state sales tax collections derived from the sale of food and food ingredients in Tennessee for FY07-08 were approximately \$504,600,000.
- Food and food ingredients were taxed at two different rates during FY07-08. The tax rate from July 1, 2007 through December 31, 2007 was six percent. On January 1, 2008 the tax rate changed to 5.5 percent as a result of Public Chapter 600 from the 2007 Public Acts. Therefore, the average tax rate for FY07-08 was 5.75 percent.

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- The average tax rate calculated for FY07-08 (5.75 percent) is used to estimate total taxable food sales for FY07-08.
- Total taxable food sales for FY07-08 are estimated to be \$8,775,652,200 ($\$504,600,000 / 5.75\% = \$8,775,652,174$).
- Based on recent one-year price increases as measured by the Consumer Price Index for Food (Source: U.S. Department of Labor: Bureau of Labor Statistics), food prices are estimated to increase by at least 4.5 percent in each of the next two years.
- Taxable food sales for FY09-10 (adjusted for two years of growth) are estimated to be \$9,583,231,600 [$(\$8,775,652,200 \times 104.5\%) \times 104.5\% = \$9,583,231,594$].
- For any year that state surplus revenue exceeds \$50,000,000, a 0.5 percent rate reduction to the state sales tax rate on food is estimated to decrease state sales tax revenue by an amount exceeding \$47,916,200 in the following fiscal year ($\$9,583,231,600 \times 0.5\%$ rate reduction = \$47,916,158).
- Incorporated municipalities are apportioned a 4.5925 percent share of state sales tax revenue. Therefore, local government revenue is estimated to decrease by an amount exceeding \$2,200,600 in the fiscal year following any year state surplus revenue exceeds \$50,000,000 ($\$47,916,200 \times 4.5925\% = \$2,200,551$).
- The net decrease to state revenues in the fiscal year following any year state surplus revenue exceeds \$50,000,000 is estimated to exceed \$45,715,600 ($\$47,916,200 - \$2,200,600 = \$45,715,600$).

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc